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26 September 1946

MEMORANDUM

TO:

Executive for Personnel and Administration

FROM:

Lawrence R. Houston
General Counsel

SUBJECT:

Accounting Procedures for Unvouchered Funds

1. Special Funds Division has requested this office to consider a basic problem concerning the certification of vouchers for unvouchered funds. As you know, these vouchers merely state that certain sums have been expended for confidential purposes, and no details are given in the interests of security. The mechanical background may serve best to establish the point in question.

2. The Treasury Department makes advances to Agent-Cashiers, which for this discussion may be called "Agent Advances". The agent in turn on proper requisition advances money to stations or individuals; again for purposes of discussion, these may be called "Overseas Advances". In a typical example, Treasury may make an agent advance of \$100,000 to Agent-Cashier A. A then advances \$50,000 to a station and \$10,000 each to five individuals. A is then without funds for further operations. The practice has been for A to submit a reimbursement voucher which in effect states he has expended the \$100,000, and upon certification of the reimbursement voucher by the Director, the Treasury will accept this as accounting for the previous agent advance and will make a new agent advance. The theory of this procedure is that the Overseas Advance is in effect an expenditure by the agent. Actually,

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the money is still in dollar form and no commodity has been purchased. Normally, Government funds are not regarded as expended until there has been an actual disbursement for purchases.

3. The above procedure has been used for two purposes. If the Overseas Advances were regarded as pure advances, Agent-Cashiers would require enormous balances to maintain operations due to the delay in reporting the final expenditures from overseas. Also, additional books of a very complex nature requiring considerable additional personnel would be needed to maintain accounts on such advances, with a greatly increased security risk resulting. Under the present system Agent-Cashiers' balances are kept low and Special Funds does not have to keep the extra books. We believe sound accounting is maintained by Special Funds inasmuch as their books reflect accurately the actual expenditures subsequently made against total advances. Furthermore, to prevent an illegal carry-over of appropriations beyond the fiscal year, year-end adjustments are made on which unobligated funds are credited back to the old appropriation and charged to the new. In our opinion this system complies with the rules covering accountability for Government funds insofar as possible with the nature of Special Funds operations.

4. However, the fact remains that on the reimbursement voucher, certification is made as to expenditures that in normal operations would be regarded as advances. Current rulings of the Comptroller General indicate that it may be improper to regard such advances as expenditures, although these rulings may be based on a charge of bad faith in cases where the system involved permitting carry-overs beyond the fiscal year. As pointed out, our present system does not permit such carry-overs, and we believe there could be no valid basis for a charge of bad faith. However, to follow the existing rulings, it will

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be necessary for CIG to set up in Special Funds the necessary books of account to handle the overseas advances as advances. This would require additional personnel, and, we believe, would in effect be a duplication of effort. This will also require the carrying of large balances by Agent-Cashiers; but the vouchers when submitted by Agent-Cashiers for reimbursement will reflect actual expenditures for purchases.

5. It is possible that if the matter were discussed with the Comptroller General and we could assure him that there were no chance of extending the availability of appropriations and that proper accounts were maintained, he might approve for purposes of certification our past theory of regarding overseas advances as expenditures for reimbursement vouchers. Your decision on the desirability of presenting the problem to the Comptroller General is requested.

LAWRENCE R. HOUSTON

LRH/ml1

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